

involved, starting with the period beginning May 1, 1982.

(3) For bonds which entered an extended maturity period on or after May 1, 1989, the market-based variable investment yield from the first semiannual interest accrual date occurring on or after November 1, 1982 to each semiannual interest accrual date occurring on or after November 1, 1989, will be 85 percent, rounded to the nearest one-hundredth of one percent, of the arithmetic average of the market yield averages, as determined in accordance with paragraph (d)(1) of this section, for the appropriate number of 6-month periods involved, starting with the period beginning May 1, 1982.

(e) *Determination of redemption values during any extended maturity period.* The redemption value of a bond on a given interest accrual date during any extended maturity period will be the higher of the value produced by using the applicable guaranteed minimum investment yield or the value produced by using the appropriate market-based variable investment yield. The calculation of these values is described below:

(1) *Guaranteed minimum investment yield and resulting values during an extended maturity period.* A bond has a guaranteed minimum investment yield for each of its extended maturity periods. The applicable guaranteed minimum investment yields for the current extended maturity period and any subsequent periods are specified in paragraph (c) of this section. In order to determine the value of a bond during an extended maturity period, the value of the bond either at the end of the next preceding maturity period or when the guaranteed minimum investment yield last increased,⁸ whichever occurs later, is determined using the applicable guaranteed minimum investment yield. This value is then used as the base upon which interest accrues during the extended maturity period at the guaranteed minimum investment yield in effect for savings bonds at the beginning of that period. The resulting

semiannual values are then compared with the corresponding values determined by using the applicable market-based variable investment yields.

(2) *Market-based variable investment yield and resulting values during an extended maturity period.* The market-based variable investment yield from the first semiannual interest accrual date occurring on or after November 1, 1982 to each semiannual interest accrual date occurring on or after November 1, 1987, is determined as specified in paragraph (d) of this section. The value of a bond on its first semiannual interest accrual date occurring on or after November 1, 1982 is used as the base upon which interest accrues during an extended maturity period at the applicable market-based variable investment yield. If redeemed, the bond will receive the higher of the two values produced by using the applicable guaranteed minimum investment yield and the applicable market-based variable investment yield.

(f) *Market-based variable investment yields and tables of redemption values.* The market-based variable investment yields for bonds redeemed during each 6-month period, beginning on May 1 and November 1 of each year, are made available prior to each of those dates by the Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, accompanied by tables of the redemption values of bonds for the following 6 months, based on either the applicable market-based variable investment yields or guaranteed minimum investment yields.

[57 FR 14276, Apr. 17, 1992, as amended at 58 FR 60936, 60937, Nov. 18, 1993]

§316.9 Taxation.

(a) *General.* For the purpose of determining taxes and tax exemptions, the increment in value represented by the difference between the price paid for Series E bonds and the redemption value received therefor constitutes interest. Such interest is subject to all taxes imposed under the Internal Revenue Code of 1986, as amended. The bonds are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt

⁸The 11-year bonus was the last increase in the guaranteed minimum investment yield (see paragraph (b)(2)). Series E bonds which were eligible to receive this bonus received it on the first semiannual interest accrual date occurring on or after January 1, 1991.

from all other taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

(b) *Federal income tax on bonds.* An owner of Series E bonds who is a cash-basis taxpayer may use either of the following two methods of reporting the increase in the redemption value of the bonds for Federal income tax purposes:

(1) Defer reporting the increase to the year of final maturity, actual redemption, or other disposition, whichever is earlier; or

(2) Elect to report the increases each year as they accrue, in which case the election applies to all Series E bonds then owned and those subsequently acquired, as well as to any other similar obligations purchased on a discount basis. If the method in paragraph (b)(1) of this section is used, the taxpayer may change to the method in paragraph (b)(2) of this section without obtaining permission from the Internal Revenue Service. However, once the election to use the method in paragraph (b)(2) of this section is made, the taxpayer may not change the method of reporting without permission from the Internal Revenue Service. For further information on Federal income taxes, the Service Center Director, or District Director, Internal Revenue Service, of the taxpayer's district may be contacted.

§ 316.10 Payment or redemption.

(a) *General.* A Series E bond may be redeemed in accordance with its terms at the appropriate redemption value shown in the applicable table described in paragraph (f) of § 316.8. The redemption values of bonds in the denomination of \$100,000 are not shown in the tables. However, the redemption value of a bond in that denomination will be equal to ten times the redemption value of a \$10,000 bond of the same issue date. A bond in a denomination higher than \$25 (face amount) may be redeemed in part but only in the amount of an authorized denomination or multiple thereof.

(b) *Federal Reserve Banks and Branches and United States Treasury.* Owners of Series E bonds may obtain payment upon presentation and sur-

render of the bonds to a Federal Reserve Bank or Branch referred to in § 316.12 or to the Department of the Treasury with the request for payment on the bonds duly executed and certified in accordance with the governing regulations.

(c) *Incorporated banks, savings and loan associations and other financial institutions.* (1) A financial institution qualified as a paying agent under the provisions of 31 CFR part 321, also published as Department of the Treasury Circular, Public Debt Series No. 750, as revised, will pay the current redemption value of a Series E bond presented for payment by an individual whose name is inscribed on the bond as owner or coowner, provided:

(i) The bond is in order for payment; and

(ii) The presenter establishes his or her identity to the satisfaction of the agent, in accordance with Treasury instructions and identification guidelines, and signs and completes the requests for payment.

(2) A paying agent may (but is not required to) pay a Series E bond, at current redemption value, upon the request of a legal representative designated in the bond's registration by name and capacity, a court-appointed legal representative of the last-deceased registrant's estate, or a beneficiary, if he or she survives the owner, provided:

(i) The bond is in order for payment; and

(ii) The presenter establishes his or her identity to the satisfaction of the agent, in accordance with Treasury instructions, identification guidelines, and otherwise complies with evidentiary requirements.

[57 FR 14276, Apr. 17, 1992, as amended at 59 FR 10535, Mar. 4, 1994]

§ 316.11 Reservation as to issue of bonds.

The Secretary of the Treasury reserved the right to reject any application for purchase of Series E bonds, in whole or in part, and to refuse to issue, or permit to be issued hereunder, any such bonds in any case or any class or classes of cases if such action was deemed to be in the public interest.